PSD2 & SCA

What businesses need to know about PSD2
enhanced security and EU SCA regulation

FREEDOMPAY

Making payments faster, simpler, safer, smarter.

What your business needs to know about PSD2 Enhance security with the upcoming EU Strong Customer Authentication regulation.

Keeping customer transactions safe from hackers is a constant struggle for merchants, and there is an increasing amount of regulation being put in place to ensure payments are made safer and consumer protection is increased.

A key piece of legislation comes into effect September 14, 2019 across Europe, which the UK has committed to implementing regardless of the outcome of Brexit negotiations.

The legislation is the EU Payment Services Directive 2 (PSD2) which has a number of aims. It will increase customer protection, make payments safer, and should work to increase competition and innovation in the payment marketplace.

The implementation of the regulations is a month away, and it is important for companies to understand how it will impact their business.

There are a variety of ways that PSD2 will change the protection of consumer and payment security, but one of the biggest is in relation to Strong Customer Authentication (SCA) for ecommerce transactions.

SCA is the provision of additional authentication requirements to ensure all transactions are more secure. It will be implemented for payments above €30 and means your customers will need to provide additional forms of identification as well as giving you their debit or credit card details.

This is a system known as 2FA, or 'two factor authentication', and the regulations apply to both online and contactless transactions.

While business owners will not need to provide anything specific when it comes to the transaction itself, they will need to upgrade their systems from the current 3D Secure v1 to 3D Secure v2 on any website or phone applications used for payment.

For merchants with customers outside the EEA, then the application of the SCA is not mandatory. But it will apply to any transaction where both the customer and business are in the EEA, even if they are in different countries. SCA is also not required for any orders taking place via mail order or telephone (MOTO).

1. Low Value Exemption

Any transactions below €30 will not need the additional authentication, and some European countries are already looking to increase this limit, according to the European Banking Authority. But if there were more than five low-value transactions in a row, or the total value of consecutive payments breached €100, then the SCA would be needed.

2. Recurring Payment Exemption

If your customer sets up a subscription with you which is taken, for example, each month or each year, then once the initial payment has gone through SCA, subsequent payments would be exempt. If the amount of the payment changes from month-to-month, then whether or not these will be exempt from the SCA is still unclear. Expect answers to this question as we get closer to the implementation date, but FreedomPay will keep you updated on these and other developments.

3. Transaction Risk Analysis (TRA) Exemption

This is something that FreedomPay can help you with as the TRA exemption is something we would use on your behalf to identify which payments can be removed from the SCA requirement.

It all comes down to our ability to analyze the likelihood that the correct cardholder is making the purchase, and we would then look to exempt it to give the fastest and most seamless checkout experience possible.

However, if the card issuer insists that SCA is performed, then FreedomPay has no say in that. It is the right of the card issuer at any stage to demand SCA. We would then ensure that was facilitated for the merchant.

FreedomPay can help with exempt transactions, but there are limits. We can work with you to determine the level you can exempt transactions up to, and the limits are €100, €250 and €500. However, what is right for merchants will depend on a number of factors, including the real-time risk analysis of the likelihood of fraudulent transactions.

The main reason for attempting to exempt any transactions at all is to speed up the process of payment, but you do not want to increase this at the expense of ensuring compliance with regulations or the security of your customers.

Another alternative for exemptions is 'whitelisting'. When a customer uses a website or store regularly, it will be possible for them to 'whitelist' that merchant, so they do not have to go through SCA every time they want to buy a product. This will be known as Trusted Payee Exemption.

Once again though, if the card issuer is unhappy to grant the business that status with the cardholder, then SCA will still apply. As always, it is the final decision of the card issuer as to whether or not SCA will be required.

As yet it is unclear whether card issuers will be able to accept whitelist requests before September 14, but FreedomPay will keep abreast of developments and let all merchants know how this exemption possibility is progressing. One thing we do know is that merchants will not be able to whitelist themselves with customers, it will be purely customer-driven.

When it comes to concerns over fraudulent payments, the best protection your business can have is to use the 3D Secure system that is already available. Anytime you use this, you are protected against a fraudulent transaction and it becomes the responsibility of the card issuer on whether or not it is able to support 3D Secure. FreedomPay can ensure this is in place for all your ecommerce transactions.

The introduction of PSD2 creates a stronger regulatory and legal system for Open Banking within the EU. These are encapsulated under the XS2A provisions, and banks must allow Payment Initiation Service Providers (PISPs) access to customer accounts, which could enable a business to accept direct bank payments for purchases online. This is just one of the many ways customers are likely to be able to pay for goods and services going forward. These developments will be followed closely by

FreedomPay, and we will ensure all our merchants are at the cutting edge of payment services development.

Merchants can be reassured that if you are working with FreedomPay we will ensure you comply with all relevant legislation and will guide you through the nuances of the different options you have in relation to exemptions, so you can be sure you do not fall foul of the rules.

As we also provide one of the fastest payment systems available, you can be sure that any friction created by the SCA will be minimized and your customers will be less likely to abandon their checkout.

We will also keep you updated on the latest information concerning SCA and any exemptions available under the Transaction Risk Analysis that might be relevant.

Your relationship manager is always on hand to answer any questions, on this or any other topic you have.

Just get in touch, and we will see how we can help.

Talk to us today